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**I. Introduction**

Thanks for the kind introduction, Senator Craig. When Senator Craig called to invite me to this, I was glad to join you because of the focus on universal service. I know that the Senator cares deeply about the Western part of our country, which has benefited greatly from the connectivity made possible through universal service.

I understand that Senator Craig was born on a ranch in Idaho that his family originally homesteaded in 1899. That gives us something in common because my great-grandmother homesteaded near the Badlands of South Dakota around that time.

Those of us from the West take pride in its successes and also understand the unique challenges that many of its citizens face. So, we also have some common goals and aspirations. We want to see our communities achieve economic and social success that, at minimum, is on par with the rest of the country -- so that our children can stay and thrive in the communities where they grew up. Today's focus on universal service reflects the key role that communications systems will play in the future of Rural America, and for the entire country, as we compete in an ever more global economy.

Early in the last century, my grandfather became an engineer and founded a company that built roads throughout our state. The motto of our family company was "Builders of Better Bridges and Highways." I keep that spirit in mind in my work at the FCC. Just as roads and bridges provide physical links between our communities, our communications networks now bring people together in ways that my grandfather never could have imagined.

Indeed, in some areas of the country, our communications tools have surpassed the physical infrastructure. I have visited the Bush region above the Artic Circle in Alaska where satellite technology funded through universal service support connects even some of the most isolated villages to hub cities, and to their health and educational facilities, even though no roads connect these towns. As we upgrade our nation's communications networks to provide broadband functionality and advanced communications services, our children will rely on and integrate these tools into their lives in ways that we are only beginning to see.

Keeping our communities connected and ensuring that the latest advanced communications services reach all Americans are principles that Congress enshrined in the Telecommunications Act of 1996. The role of universal service in meeting these goals and in supporting networks in rural areas will become even more critical as we enter a new age of global competitiveness.

Earlier this week, I ran into Thomas Friedman at the airport, who wrote the current best seller, *The World is Flat*. In that book, Friedman talks about the effect of ubiquitous telecommunications on the world economy and observes that these systems are leveling the global playing field, knocking down impediments to international competition. He posits that the once-accepted theory that “you are better to be a B student in the Bronx than an A student in Bangladesh” is no longer true. The outsourcing of jobs and research-and-development efforts that Friedman describes may not be new to this audience. But, because of broadband communications, the degree of change – and of leveling of the playing field -- is remarkable. His observations reinforced my belief in the need to continue investing in our rural networks to avoid falling behind our competitors overseas.

As many of you have heard, the U.S. has unfortunately slipped behind the world leaders in broadband deployment and penetration. So, we must set our sights on developing a telecommunications infrastructure that is second-to-none. I expect that the private sector will need to do the lion’s share of that lifting. But I also believe we’ll need to continue our commitment to connectivity in Rural America, if we are to achieve that most fundamental goal of the Communications Act, set out in Section 1 – that we should make available “to all the people of the United States...a rapid, efficient, Nation-wide ... communication service....”

We need robust networks to support broadband services, and having a stable universal service program is an important part of that effort. While universal service funds do not directly support broadband services, they support much of the network over which many broadband services will ride. Experience suggests that it takes networks to serve our communities. Our universal service system reflects the understanding that services are relatively cheap to provide, but networks are costly to deploy and to maintain. While this concept may change as technology develops, I am concerned about approaches that would undercut the ability of providers to invest in their networks, even as we are trying to upgrade them to maintain our global competitiveness.

The countries that have surged ahead of the U.S. in broadband deployment have shown remarkable societal and governmental commitment to this effort. Our global economic success

will also be shaped by our commitment to the communications networks that serve Rural America. While it is important that we strive to consistently improve the performance of our programs, we've got to ensure that even well-intentioned reform efforts do not undermine the ubiquity of service that we have been able to achieve or erode the foundations of the broadband future. Whether intentional or not, it would be a mistake to adopt a policy of "unilateral disarmament" when it comes to our country's communications networks, particularly if we are to maintain our global competitiveness in the high tech markets.

Fortunately, telecommunications issues tend to be bipartisan issues. We can draw on common goals, and I am looking forward to working closely with our new Chairman, Kevin Martin, on many of these issues.

So, let me turn to some of the more immediate issues before the FCC. As an FCC Commissioner, my job is to implement Section 254 of the Act, through which Congress codified the long-standing concept of universal service. I'll focus my remarks, today, on the high cost portion of the universal service program, which enables rural Americans to access services at rates that are reasonably comparable to similar services in urban areas. Congress also directed that universal service should support "quality services" at "affordable rates," and that the Commission should establish "specific, predictable and sufficient" mechanisms to achieve these goals.

Given the importance of the telephone, it is not surprising that Congress would enshrine these principles in law. The economic, social, and public health benefits of the telecommunications network are increased for all subscribers by the addition of each new subscriber. Universal service has played an important role in stimulating and maintaining the high levels of penetration that our country now enjoys, with benefits for all users of the network, no matter where they live.

With almost a decade behind us since the 1996 Act, the FCC is re-examining several aspects of our federal universal service policies to ensure that they achieve the statutory objectives as effectively as possible. Indeed, rural telecommunications is at a crossroads. Both Congress and the FCC are considering universal service policy, intercarrier compensation reform, and how to account for the rise of new technologies and services. Let me focus on some of the road-construction work that the FCC is doing.

## **II. Universal Service**

I'll start by focusing on how universal service funds are disbursed. Currently, the Commission's rules provide separate funding mechanisms -- one for the largest and one for the smallest telephone companies providing universal service to high cost areas. The Commission is working to make sure that both of these mechanisms achieve the vision of Congress laid out in Section 254.

In a proceeding started last summer, the Commission asked the Federal-State Board Joint Board on Universal Service to review the way that we calculate high cost universal service support for small carriers, which are referred to as "rural carriers" in the FCC's parlance, and to assess whether there are ways to improve that system. The Joint Board is working on a recommendation for changes to the current rules that were developed by the Rural Task Force -- a cross-industry working group of both universal service recipients and contributors, which really worked to understand the needs of Rural America.

One of the most elemental tasks for the Joint Board will be wading not just through difficult policy options but also through some complicated arguments about how the fund has developed over the past few years and what is likely to happen over the next several years. As you heard from the morning panelists, much of the growth of the high cost support mechanism is the result of regulatory changes that have reduced incumbent carriers' ability to collect access charges and have instead shifted that cost recovery to explicit high cost universal service support. So, it may come as a surprise to many policymakers that high cost funding for small rural incumbent carriers has been almost flat for 2004 and 2005.

Yet, to respond to the overall growth of the high cost fund, the Joint Board is actively considering how to strengthen the effectiveness of the current system. The outcome of this proceeding will be important for the ability of communities and consumers in Rural America to thrive and grow with the rest of the country.

The Commission may also look once again at the separate set of rules for universal service payments to larger carriers, which the FCC refers to as "non-rural" carriers. The Commission has struggled with this task, twice adopting rules which sought to ensure that rural and urban phone rates are reasonably comparable, as required by the Act. These rules have resulted in two court remands, the most recent in February of this year.

The Commission has not yet sought comment on how to comply with the most recent remand, but we will have to carefully consider whether our rules for larger carriers satisfy all of the principles for universal service set forth in the Act. Providing a sufficient and stable base of support is critical to having a successful universal service program, so responding to the Court is an important component of our universal service agenda.

One area where the Commission acted recently is on the criteria for designating competitive eligible telecommunications carriers (or CETCs). In February, we largely adopted the recommendations of the Joint Board to tighten the eligibility criteria for these designations. We established more meaningful guidance on designations by strengthening build-out and reporting requirements. I was pleased the Order also allows State commissions to impose existing carrier-of-last-resort and line extension obligations when designating additional ETCs.

The new guidelines should help limit federal universal service funding to those providers who make a firm commitment to serving rural communities. I was also pleased that the Order included a firm commitment to revisit these issues so that we can consider the growth in CETC funding and the effectiveness of the new guidelines in the near future.

Another area that may garner future attention is the question of “contribution methodology” – that is, the way we calculate carriers’ payments into the universal service fund. Congress directed the Commission to establish “specific, predictable and sufficient” mechanisms to preserve and advance universal service. So, ensuring that we have a mechanism that collects sufficient funds without placing unreasonable burdens on contributors is an important task.

Although the current revenue-based system has met the requirements of the Act, many have expressed concern about the growth of the contribution factor, which is the percentage of telecommunications revenues that must be contributed to the fund. Several dynamics have combined to put upward pressure on this factor. The revenue base, constrained by court decisions, has had a gradual but steady decline over the past four years. Growth in CETC expenditures and the shift of funds from access recovery to explicit support have each increased demands on the fund. In addition, the rise of wireless and IP-based services has raised questions about how to calculate revenues from telecommunications services. As I joined the Commission in late 2002, the Commission took several modest steps to stabilize the universal service contribution base, but many have suggested that we may need to consider additional reform.

One option is to expand the base of support by including intrastate telecommunications services, in addition to interstate services. This approach was endorsed by the Joint Board but

would require Congressional action. Other measures might include assessing cable modem and VoIP services. Another approach would be to replace the revenue-based contributions with flat charges assessed on each line (or connection, for wireless services) or on each telephone number. One benefit of these connections-based approaches is that it might not matter what service or services were being run over the connection. Also, in theory, the number of connections might be more stable than the revenue derived from them. On the other hand, this approach might result in significant shifts in the contribution base, potentially increasing the burden on low income and rural consumers.

As we move forward, I believe that any changes must meet the statutory requirements, provide a stable base of support for universal service, be administratively workable, and shouldn't unduly impact consumers.

### **III. Intercarrier Compensation**

As our telecommunications markets evolve, we also face growing competitive pressures on universal service. We see this phenomenon in the intercarrier compensation debate, and I want to highlight for you some possible implications of this issue for our universal service policies.

The Commission is actively considering, and there is a widespread call for, further reform of our intercarrier compensation rules. I am encouraged by the industry-wide effort to come up with solutions. To build on that momentum, the Commission, in February of this year, sought comment on the key industry proposals to develop a full record on these plans.

Right now, we have a complex set of different rules for traffic that looks very similar. As a result, we have legitimate disputes about what rates should apply, and we also have a certain amount of game-playing. Sometimes, it's hard to tell the difference between the two. Reforming this system could substantially reduce opportunities for arbitrage and promote a more efficient marketplace.

As we move forward, we need to be careful about the impact of any proposed changes on consumers, particularly those in rural areas. If a proposal shifts substantial cost burdens to end-user consumers, as a bill-and-keep plan might do, we may put at risk the high levels of connectivity that we have worked so hard to achieve. And, if the Commission adopts an intercarrier compensation plan that shifts substantial cost recovery to the universal service fund, we must be cognizant of the pressures that would put on the fund.

#### **IV. Broadband/IP-Enabled Services**

Getting the right answers to these questions is imperative because we've got to create an environment in which companies can invest in their networks.

The need for ubiquitous broadband pipes is becoming essential because we are experiencing a revolution in the applications that will ride over this infrastructure. Although most of our attention to date has been focused on Voice over Internet Protocol (or VoIP), VoIP is only the tip of the application iceberg. The ability to deliver voice, data, video, and real-time communications services over a converged, packetized network will mean increased educational, economic, health, and social opportunities for businesses and consumers alike.

No one stands to benefit more from these opportunities than rural Americans. Broadband connections can give entrepreneurs access to millions of distant potential customers, can facilitate telecommuting, and can increase productivity. It can help attract jobs by allowing businesses to set remote locations and call centers. Rural Americans are continuously finding ways to leverage communications technologies to their advantage. Broadband also gives access to transformational opportunities through distance learning and specialty classes that might otherwise be out of reach. Telemedicine applications are allowing rural Americans to have access to diagnostic services, like mobile mammography clinics and emergency services that had been unavailable because of distance and cost. If the horse and wagon allowed my family to settle the West, broadband networks will be a big part of maintaining and restoring the vitality of these communities.

Some have asked how this broadband future relates to universal service and have argued that broadband and VoIP eliminate the need for universal service. I believe that these arguments rest on some fundamental flaws.

First, consumers across the country continue to rely heavily on the voice network as their primary communications connection. Nationally, we have achieved a remarkable level of telephone penetration, over 93%, while broadband penetration, while growing, is estimated to be roughly 20%. Maintaining connectivity to the voice phone network requires extraordinary effort in rural areas. Without universal service funding, the cost of basic phone service would likely be prohibitive for many. It is worth noting that there are still pockets of Rural America with low levels of telephone penetration, despite our high national average, because the cost remains prohibitive even with universal service support.

Second, broadband penetration still remains relatively low in Rural America. Among households connected to the Internet, roughly 40% of urban households have broadband access. In contrast, about 25% of rural households with connections to the Internet use broadband. This is perhaps not surprising given that rural residents tend to be less likely to use the Internet, regardless of the technology. The Pew Foundation has suggested that this may be due in part to older and less wealthy populations in Rural America. If true, we may expect the same factors to affect the roll-out of broadband in rural areas.

Finally, even in an IP and broadband age, I expect that universal service will continue to be critical because we've got to have broadband pipes to carry the most valuable IP services. IP services like VoIP require a broadband connection, and for many rural Americans that connection uses the local telephone network. Without broadband networks, IP services can't reach their full audience or capability.

We are just starting to experience the externalities of the broadband network. The economic, public health, and social externalities associated with the broadband network will be equally, if not more, important than those associated with the plain-old-telephone-service (POTS) network because broadband services will touch so many different aspects of our lives -- from education to work productivity to healthcare services. It is increasingly apparent that other industrialized countries are recognizing the importance of these tools. As I said before, now is not the time for unilateral disarmament, but it is time to redouble our efforts to develop top-of-the-line and ubiquitous networks. If we succeed, we can prevent outsourcing of jobs overseas by promoting the ability of U.S. companies to "outsource" within our own borders -- to Rural America. And that means a continuing commitment to connectivity.

## **VI. Conclusion**

Thank you all for your interest, today. As communications technologies develop, and as they enable us to bridge distances seamlessly, perhaps someday we won't feel compelled to all get together in the same room to have this sort of conversation. But until we all have 10 megabits to the desktop, I appreciate you all leaving your offices on a Friday at lunch to talk with one another about this important issue. Thanks for your attention, and I have a moment or two for questions.